§1710.406(b) should be designed to achieve the applicable operating performance standards within one year of the date of installation of the facilities.

(ii) All activities other than those included in paragraph (c)(1)(i) of this section should be designed to achieve the applicable operating performance targets within the time period contemplated by the analytic support documents for the overall EE Program as approved by RUS.

(2) *Cost effectiveness*. Eligible EE Programs must demonstrate that Cost effectiveness as measured for the program overall will be achieved within ten years of initial funding, except in cases where the useful life of the technology on an aggregate basis can be demonstrated to be longer than the ten year period. RUS will evaluate the useful life assumption on a case-by-case basis.

§ 1710.406 Eligible activities and investments.

(a) *General*. Eligible program activities and investments:

(1) Shall be designed to improve energy efficiency and/or reduce peak demand on the customer side of the meter;

(2) Shall be Cost effective in the aggregate after giving effect to all activities and investments contemplated in the approved EE Program; and

(3) May apply to all Consumer classes.

(b) *Eligible activities and investments*. Eligible program activities and investments may include, but are not limited to, the following:

(1) Energy efficiency and conservation measures where assets financed at an Ultimate Recipient premises can be characterized as an integral part of the real property that would typically transfer with the title under applicable state law. Where applicable, it is anticipated that the loan obligation would also be expected to transfer with ownership of the metered account serving that property.

(2) Renewable Energy Systems, including —

(i) On or Off Grid Renewable energy systems;

(ii) Fuel cells;

(3) Demand side management (DSM) investments including Smart Grid Investments;

(4) Energy audits;

(5) Utility Energy Services Contracts;

(6) Consumer education and outreach programs;

(7) Power factor correction equipment on the Ultimate Recipient side of the meter;

(8) Re-lamping to more energy efficient lighting; and

(9) Fuel Switching as in:

(i) The replacement of existing fuel consuming equipment using a particular fuel with more efficient fuel consuming equipment that uses another fuel but which does not increase direct greenhouse gas emissions; or

(ii) The installation of non-electric fuel consuming equipment to facilitate management of electric system peak loads. Fuel switching to fossil or biomass fueled electric generating equipment is expressly excluded.

(10) Other activities and investments as approved by RUS as part of the EE Program such as, but not limited to, pre-retrofit improvements.

(c) *Intermediary lending*. EE Program loan funds may be used for direct relending to Ultimate Recipients where the requirements of §1710.405(b) are met.

(d) *Performance standards*. Borrowers are required to use Energy Star qualified equipment where applicable or meet or exceed efficiency requirements designated by the Federal Energy Management Program.

§ 1710.407 Business plan.

An Eligible EE Program must have a business plan for implementing the program. The business plan is expected to have a global perspective on the borrower's energy efficiency plan. Therefore, energy efficiency upgrades should be identified in aggregate. The business plan must have the following elements:

(a) *Executive summary*. The executive summary shall capture the overall objectives to be met by the Eligible EE Program and the timeframe in which they are expected to be achieved.

(b) *Organizational background.* The background section shall include descriptions of the management team responsible for implementing the Eligible EE Program.

(c) *Marketing plan.* The marketing section should identify the target Consumers, promotional activities to be pursued and target penetration rates by Consumer category and investment activity.

(d) *Operations plan.* The operations plan shall include but is not limited to:

(1) A list of the activities and investments to be implemented under the EE Program and the Btu savings goal targeted for each category;

(2) An estimate of the dollar amount of investment by the utility for each category of activities and investments listed under paragraph (d)(1) of this section;

(3) A staffing plan that identifies whether and how outsourced contractors or subcontractors will be used to deliver the program;

(4) A description of the process for documenting and perfecting collateral arrangements for Ultimate Recipient loans, if applicable; and

(5) The overall Btu savings to be accomplished over the life of the EE Program.

(e) *Financial plan.* The financial plan shall include but is not limited to:

(1) A schedule showing sources and uses of funds for the program;

(2) An itemized budget for each activity and investment category listed in the operations plan;

(3) An aggregate Cost effectiveness forecast;

(4) Where applicable, provision for Ultimate Recipient loan loss reserves. These loan loss reserves will not be funded by RUS. Loan loss reserves are not required when a utility will not be relending RUS funds.

(5) Identify expected Ultimate Recipient loan delinquency and default rates and report annually on deviations from the expected rates.

(f) *Risk analysis.* The business plan shall include an evaluation of the financial and operational risk associated with the program, including an estimate of prospective Consumer loan losses consistent with the loan loss reserve to be established pursuant to paragraph (e)(4) of this section.

(g) The borrowers are strongly encouraged to follow a bulletin or such other publication as RUS deems appropriate that contains and describes best practices for energy efficiency business plans. RUS will make this bulletin or publication publicly available and revise it from time-to-time as RUS deems it necessary.

§ 1710.408 Quality assurance plan.

An eligible EE program must have a quality assurance plan as part of the program. The quality assurance plan is expected to have a global perspective on the borrower's energy efficiency plan. Therefore, energy efficiency upgrades should be identified in aggregate. Every effort is made to fund only EE programs that are administered in accordance with quality assurance plans meeting standards designed to achieve the purposes of this subpart. However, RUS and its employees assume no legal liability for the accuracy, completeness or usefulness of any information, product, service, or process funded directly or indirectly with financial assistance provided under this subpart. Nothing in the loan documents between RUS and the energy efficiency borrower shall confer upon any other person any right, benefit or remedy of any nature whatsoever. Neither RUS nor its employees makes any warranty, express or implied, including the warranties of merchantability and fitness for a particular purpose, with respect to any information, product, service, or process available from an energy efficiency borrower. The approval by RUS and its employees of an energy efficiency borrower's quality assurance plan is solely for the benefit of RUS. Approval of the quality assurance plan does not constitute an RUS endorsement. The quality assurance plan must have the following elements:

(a) Quality assurance assessments shall include the use of qualified energy managers or professional engineers to evaluate program activities and investments;

(b) Where applicable, program evaluation activities should use the protocols for determining energy savings as developed by the U.S. Department of